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C O N F I D E N T I A L LAGOS 001967

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [ETRD](#) [NI](#)

SUBJECT: NIGERIA: SHELL AND POSSIBLY CHEVRON MAY RESUME PUMPING OIL IN NORTHERN DELTA SOON

REF: A. ABUJA 1379
 B. LAGOS 1745
 C. LAGOS 1940
 D. ABUJA NI 1594

Classified By: RHINSON-JONES FOR REASONS 1.5 (B) AND (D).

¶1. (C) SUMMARY. Shell Oil has been assessing its crude oil production facilities in the Delta swamps shut down by ethnic violence five months ago, and concludes some may again be operational by September 20, 2003. Shell could pump as much as 40,000 to 50,000 additional barrels per day of crude oil from the region within two weeks. Even though Chevron executives may dislike the idea, this development could press the company to follow suit soon. END SUMMARY.

¶2. (C) Econoff spoke with Shell Oil's security manager based in Warri on September 15. The security manager said Shell has been assessing well-heads, flow lines and pipelines in the Northern Delta which were shut down in March due to ethnic clashes. The assessments indicate minimal damage was done to Shell facilities, he said, and it may be possible to bring some of them online by the end of the week. Shell could be pumping as much as 40,000 to 50,000 barrels per day from the closed well-heads within two weeks, he also said. Approximately 140,000 barrels per day of Shell's production from the region remains closed as a result of the March violence. (NOTE: Up to 300,000 barrels per day of crude developed by Shell, Chevron, and TotalfinaElf in the Northern Delta region are offline.) Shell's security manager said the ramped-up military presence in the Delta is a significant factor in the company's decision to bring the closed production back online now. (NOTE: He also confirmed that Shell is providing logistical assistance to the military deployed to the area in the form of food, staging areas and the use of non-military boats for troop and equipment movement (ref A)).

¶3. (C) Chevron officials have insisted that the company will not return to its wells in the isolated riverine areas of the Delta State swamps until the GON effectively restores law and order there (ref B). While a massive troop build-up in and around Warri has produced a tense peace (ref C), a Chevron spokesperson told Econoff in early September the company is unwilling to spend the millions of dollars needed to repair damage done to its facilities in the swamps during the March violence until the risk is significantly reduced. (NOTE: Either Chevron suffered more damage to its facilities or is more risk-averse than Shell, or both.)

¶4. (C) COMMENT. If this assessment of Shell's willingness to restart its Northern Swamp production proves accurate, Nigeria will soon take a welcome step in returning to full crude production. Since March 2003, the GON has lost much oil revenue as a result of the crisis in the Delta.

¶5. (C) COMMENT CONTINUED. If Shell brings its production back online in the coming days, the GON will likely pressure Chevron to follow suit. Chevron executives may not be able to hold fast to their demand that the government demonstrate its ability to establish and maintain peace and order before the company restarts operations in the Warri swamplands. The GON may interpret Shell's decision to return to the swamps as a signal that corporate sponsorship of the joint military deployment Operation Restore Hope is a successful security model (ref C, D). This informal, off-the-record arrangement shifts the cost of the massive military presence required to provide security for oil workers and facilities largely to the companies. Should Chevron find itself paying for security in the region anyway, it may feel economic pressure to resume production in the region sooner than later simply to recoup this outlay. END COMMENT.

HINSON-JONES